



Senate

General Assembly

File No. 554

January Session, 2001

Substitute Senate Bill No. 1088

Senate, May 2, 2001

The Committee on Finance, Revenue and Bonding reported through SEN. LOONEY of the 11th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING THE CONNECTICUT STUDENT LOAN FOUNDATION.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subdivision (1) of section 10a-204 of the general statutes is
2 repealed and the following is substituted in lieu thereof:

3 (1) To lend money or guarantee the loan of money, and to acquire
4 and sell loans, upon such terms and conditions as the board or any
5 rating agency or underwriter may prescribe, within the limitations
6 contained in this chapter [or] and in Title IV, Part B of the Higher
7 Education Act of 1965, where applicable, to assist persons in meeting
8 the expenses of education; provided no such person shall receive any
9 loan or loans in excess of such amounts as the board may authorize or
10 amounts which are in conformance with Title IV, Part B of the Higher
11 Education Act of 1965, [as appropriate] where applicable. The board
12 may procure a policy or policies of group life insurance to insure the

13 repayment of loans made or guaranteed by the corporation in the
14 event of the death of an individual to whom a loan is made or
15 guaranteed hereunder. The board may charge any person receiving a
16 loan under the provisions of this subsection an amount deemed
17 reasonable by the board but in no event shall such amount exceed the
18 amount provided by the provisions of Title IV, Part B of the Higher
19 Education Act of 1965, [when] where applicable.

20 Sec. 2. Subdivision (8) of section 10a-204 of the general statutes is
21 repealed and the following is substituted in lieu thereof:

22 (8) To perform such other acts as may be necessary or appropriate to
23 carry out effectively the objects and purposes of the corporation, as
24 specified in this chapter or in Title IV, Part B of the Higher Education
25 Act of 1965, where applicable.

26 Sec. 3. Subsection (a) of section 10a-204b of the general statutes is
27 repealed and the following is substituted in lieu thereof:

28 (a) The Connecticut Student Loan Foundation, a nonprofit
29 corporation is authorized from time to time to issue its bonds, notes or
30 other obligations in such principal amounts as in the opinion of the
31 corporation shall be necessary to provide sufficient funds for carrying
32 out the purposes set forth in subsections (3) and (4) of section 10a-201
33 [with respect to loans originated pursuant to Title IV, Part B of the
34 Higher Education Act of 1965, 20 USC 1071 et seq.,] including the
35 payment, funding or refunding of the principal of, or interest or
36 redemption premiums on, any bonds, notes or other obligations issued
37 by it whether the bonds, notes or other obligations or interest to be
38 funded or refunded have or have not become due, the establishment of
39 reserves to secure such bonds, notes or other obligations and all other
40 expenditures of the corporation incident to and necessary or
41 convenient to carry out the purposes set forth in subsections (3) and (4)
42 of section 10a-201. [with respect to loans originated pursuant to Title
43 IV, Part B of the Higher Education Act of 1965, 20 USC 1071, et seq.]

44 Sec. 4. Subsection (r) of section 10a-204b of the general statutes is
45 repealed and the following is substituted in lieu thereof:

46 (r) The state further covenants with the [purchases] purchasers and
47 all other subsequent owners and transferees of bonds, notes or other
48 obligations issued by the corporation pursuant to this section, in
49 consideration of the acceptance of and payment for the bonds, notes or
50 other obligations, until the bonds, notes or other obligations, together
51 with the interest thereon, with interest on any unpaid installment of
52 interest and all costs and expenses in connection with any action or
53 proceeding on behalf of the owners, are fully met and discharged or
54 unless expressly permitted or otherwise authorized by the terms of
55 each contract and agreement made or entered into by or on behalf of
56 the corporation with or for the benefit of such owners, that the state: (i)
57 Will not create or cause to be created any lien or charge on the assets or
58 revenues pledged to secure such bonds, notes or other obligations,
59 other than a lien or pledge created thereon pursuant to this section; (ii)
60 will not in any way impair the rights, exemptions or remedies of the
61 owners; and (iii) will not limit, modify, rescind, repeal or otherwise
62 alter the rights or obligations of the corporation to take such action as
63 may be necessary to fulfill the terms of the resolution authorizing the
64 issuance of the bonds, notes or other obligations; provided, that
65 nothing herein shall preclude the state from exercising its power,
66 through a change in law, to limit, modify, rescind, repeal or otherwise
67 alter this chapter if and when adequate provision shall be made by law
68 for the protection of the holders of outstanding bonds, notes or other
69 obligations, pursuant to the resolution under which the bonds, notes or
70 other obligations are issued. The corporation is authorized to include
71 this covenant of the state, as a contract of the state, in any agreement
72 with the owners of any bonds, notes or other obligations, in any credit
73 facility or reimbursement agreement with respect to the bonds, notes
74 or other obligations and in any agreement authorized by [subsections]
75 subsection (p) or (q) of this section.

76 Sec. 5. Subsection (b) of section 10a-206 of the general statutes is
77 repealed and the following is substituted in lieu thereof:

78 (b) Notwithstanding anything to the contrary provided in this
79 section, the corporation may make or guarantee a loan under terms
80 and conditions with respect to repayment which are more lenient or
81 more restrictive as to the borrower than prescribed by this section if
82 the board determines that such action on its part conforms to
83 [applicable federal laws and regulations or is justified by special
84 circumstances and would be consistent with the general objectives of
85 the corporation] Title IV, Part B of the Higher Education Act of 1965,
86 where applicable.

87 Sec. 6. (NEW) (a) For purposes of this section, "state licensing
88 agency" means any state agency, department, board or commission
89 that is responsible for issuing licenses or certificates to practice or
90 engage in a profession, occupation or trade.

91 (b) Notwithstanding any provision of the general statutes, no state
92 licensing agency shall renew a license or certificate if such licensing
93 agency has been notified by the Connecticut Student Loan Foundation
94 pursuant to this section that the applicant for such renewal is in default
95 of a student loan made or guaranteed by the foundation, except as
96 provided in subsection (d) of this section. The state licensing agency
97 shall provide a person denied renewal of a license or certificate
98 pursuant to this section the rights provided under state law and
99 regulations relating to the licensure of such person's profession,
100 occupation or trade.

101 (c) The Connecticut Student Loan Foundation shall (1) periodically
102 identify persons in default on student loans made or guaranteed by it,
103 (2) subject to the provisions of subsection (d) of this section, provide a
104 list of such persons to each state licensing agency, and (3) in the case of
105 a person in default who holds a license or certificate, notify such
106 person, at the time the list is provided to the state licensing agency,

107 that the license or certificate is subject to nonrenewal pursuant to this
108 section.

109 (d) A person in default of a student loan made or guaranteed by the
110 Connecticut Student Loan Foundation may enter into an agreement
111 with the foundation for repayment of such loan. The foundation shall
112 provide such person with a certificate stating that such person has
113 entered into a repayment agreement that is acceptable to the
114 foundation and such person. A person who presents such certificate to
115 a state licensing agency shall not be denied renewal of a license or
116 certificate based on default of such loan unless such person fails to
117 make the payments required under the agreement. The foundation
118 shall not include such person's name on the list issued after such
119 agreement is entered into or on any subsequent list if such person
120 continues to make the payments required under such agreement. If a
121 person fails to make the payments required under the agreement, the
122 foundation may include the person's name on the list. Such person
123 may enter into another such repayment agreement and be issued
124 another such certificate for presentation to the state licensing agency.

125 (e) The Connecticut Student Loan Foundation shall provide written
126 notice of the provisions of this section to each person who receives a
127 loan made or guaranteed by the foundation.

128 Sec. 7. Section 12-742 of the general statutes is repealed and the
129 following is substituted in lieu thereof:

130 (a) In cases where any person or entity is due a refund of state
131 income taxes, and that same person owes a debt or obligation for
132 which the Commissioner of Administrative Services is seeking
133 reimbursement, the Commissioner of Revenue Services, upon
134 notification by the Commissioner of Administrative Services, shall
135 withhold the payment of said refund to such person or entity to the
136 extent of such debt or obligation, provided the Commissioner of
137 Revenue Services shall notify such debtor that he or she has the right

138 to a hearing before an officer designated by the Commissioner of
139 Administrative Services if he or she contests the validity or amount of
140 the Commissioner of Administrative [Services's] Services' claim, except
141 that where the debt or obligation is a debt resulting from failure to pay
142 an order for child support, the administrative review process will be
143 held in accordance with subsection (c) of section 52-362e. If the debtor
144 fails to apply in writing to the Commissioner of Administrative
145 Services for a hearing within sixty days of the issuance of notice of
146 withholding, the Commissioner of Revenue Services shall remit the
147 amount of the withheld refund to the Commissioner of Administrative
148 Services. If the debtor elects an administrative hearing within this time,
149 the Commissioner of Revenue Services shall remit the amount of the
150 withheld refund in accordance with any decisions of the hearing
151 officer or the court upon an appeal of the hearing officer's decision.

152 (b) (1) If any person is due a refund of state income taxes and such
153 person is in default of a student loan made or guaranteed by the
154 Connecticut Student Loan Foundation, the Commissioner of Revenue
155 Services, upon notification by the Connecticut Student Loan
156 Foundation, shall withhold, in accordance with this subdivision and
157 the agreement entered into pursuant to subdivision (2) of this
158 subsection, the payment of the refund to such person for credit against
159 the amount of the default, provided the amount so withheld shall not
160 exceed the amount of the default. If a person in default also owes a
161 debt or obligation described in subsection (a) of this section, the refund
162 shall be applied against such debt or obligation before being credited
163 against the amount of the default. The commissioner shall certify to the
164 Comptroller, or to any other agency or entity responsible for the
165 issuance of tax refunds on behalf of the state, the total amount of any
166 refund to be credited against the amount of the default. The
167 commissioner shall notify such person of the action taken pursuant to
168 this subsection.

169 (2) The Commissioner of Revenue Services and the president of the

170 Connecticut Student Loan Foundation, on behalf of such corporation,
171 shall enter into an agreement for the crediting of income tax refunds
172 against the amount a taxpayer is in default of a loan pursuant to
173 subdivision (1) of this subsection. The agreement shall include
174 procedures for the foundation to (A) notify the commissioner of a
175 default, and the amount of the default, (B) reimburse the Department
176 of Revenue Services for any costs incurred by the department in
177 carrying out the provisions of this subsection.

178 Sec. 8. This act shall take effect from its passage, except that sections
179 6 and 7 shall take effect October 1, 2001.

ED *Joint Favorable Subst. C/R*

FIN

FIN *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact: Significant Cost, Minimal Revenue Loss

Affected Agencies: Department of Public Health, Department of Consumer Protection, Department of Education, Department of Environmental Protection, Office of Secretary of the State, Department of Revenue Services

Municipal Impact: None

Explanation**State Impact:**

The bill prohibits state licensing agencies that issue professional, trade or occupational licenses or certificates from renewing such licenses or certificates for anyone who has defaulted on a student loan made or guaranteed by the Connecticut Student Loan Foundation (CSLF). Because the bill requires the CSLF to identify the defaulters and notify the licensing agencies it is anticipated the majority of these agencies can administer responsibilities under this bill within current budgetary resources.

However, it is anticipated that the number of persons in default who hold licenses issued by the Department of Public Health will be significant in nature. The state will incur an FY 02 cost of \$160,572 to support the three-quarter salaries of 1 Office Assistant, 1 Special

Investigator and 1 Administrative Hearings Attorney, as well as associated other expenses and equipment costs, needed to allow the agency to investigate and litigate these matters, compare listings of persons in default against licensure databases, notify persons of their ineligibility to renew their licenses, and refund fees paid by persons subsequently identified for non-renewal. Also included in this sum is \$42,828 in fringe benefits costs. In FY 03 and subsequent fiscal years a combined cost of \$207,630 will result (\$150,526 in costs to the department and \$57,104 in associated fringe benefits costs).

To the extent some of the estimated 29,000 defaulters cannot renew their licenses, a minimal revenue loss may occur, the extent of which cannot be determined as it is contingent on the number of licensees who are in default on certain student loans.

The bill also requires the Department of Revenue Services (DRS) to enter into an agreement with CSLF to credit income tax refunds against a taxpayer's defaulted student loans. DRS is anticipated to incur on-time costs of \$60,000 and minimal on-going costs to develop, modify, and program the current income tax system in order to match taxpayers receiving refunds and CSLF's default list. Since the bill specifies that all costs incurred by DRS will be reimbursed by CSLF, DRS will not require any additional budgetary resources.

BACKGROUND

Licensing agencies include the departments of public health, consumer protection, education, environmental protection and the Office of the Secretary of the State.

OLR Bill Analysis

sSB 1088

AN ACT CONCERNING THE CONNECTICUT STUDENT LOAN FOUNDATION.**SUMMARY:**

This bill:

1. bars state licensing agencies from renewing professional, trade, or occupational licenses or certificates for anyone who has defaulted on a student loan made or guaranteed by the Connecticut Student Loan Foundation (CSLF);
2. requires the revenue services commissioner, upon notification by CSLF, to withhold state income tax refunds to repay student loan defaults; and
3. expands the loans CSLF may acquire, sell, and service to include all types of student loans for postsecondary education, not just those made under federal law.

EFFECTIVE DATE: October 1, 2001 for the provisions dealing with license nonrenewal and state income tax refunds; upon passage for the remaining provisions.

LICENSE NONRENEWALS***Defaulter List***

The prohibition against renewing a state license or certificate for a student loan defaulter applies only if CSLF has notified the state licensing agency, using procedures the bill establishes, that the applicant for license or certificate renewal has defaulted on a CSLF-made or -guaranteed student loan. The bill requires CSLF to identify defaulters periodically; provide a list to each state licensing agency; and, if a defaulter holds a state license or certificate, notify him that his credential is subject to nonrenewal under the bill. CSLF must give

notice to the defaulter when it notifies the licensing agency.

Repayment Agreements

If the defaulter enters into a repayment agreement with CSLF, it must provide him with a certificate to that effect. A person who presents a CSLF certificate to a licensing agency may be denied renewal based on his student loan default only if he fails to make the payments required by the agreement.

The bill bars CSLF from including any person who makes payments under a repayment agreement on any list of defaulters issued after the agreement, as long as the person continues to make payments. If the person stops paying under the agreement, CSLF may include his name on subsequent defaulter lists until he makes another repayment agreement.

License or Certificate-Holder Rights

An applicant whose license is not renewed based on a defaulted student loan retains the same rights as others in his profession, occupation, or trade whose license renewal applications are denied. The bill requires CSLF to give written notice of the license nonrenewal provisions to anyone who receives a CSLF-made or -guaranteed loan.

INCOME TAX REFUNDS

The bill requires the revenue services commissioner to withhold the state income tax refunds of taxpayers who have defaulted on CSLF-made or -guaranteed loans. It limits the amount the commissioner may withhold to the student loan default amount. Any debts the taxpayer owes to the state take priority over the defaulted student loans and tax refunds must be credited first against any such debts. The commissioner must certify the total amount of the defaulter's refund to be credited to the defaulted student loan to the comptroller or any agency or entity responsible for issuing state tax refunds. The commissioner must also notify the taxpayer of the withholding.

The bill requires the commissioner and the CSLF president to make an agreement to credit income tax refunds against a taxpayer's defaulted

student loans. The agreement must include procedures for CSLF to notify the commissioner of the default and to reimburse the Department of Revenue Services for its administrative costs in carrying out the bill's provisions.

BACKGROUND

Student Loans

The Federal Family Education Loan Program allows students and their parents to get federally insured loans to finance postsecondary education. The loan programs governed by Title IV, Part B of the Higher Education Act of 1965 (20 USCA 1071-1087-4) are the subsidized and unsubsidized Stafford Loans and Federal PLUS loans. These loans are issued based on financial need and the cost of attending college. The amount each person may borrow is limited.

Student loans not made under federal law are called "alternative loans." They are commonly used to pay college or graduate study costs that exceed federal borrowing limits. Such loans are made by banks, subject to credit approval. They are not federally insured.

COMMITTEE ACTION

Education Committee

Joint Favorable Substitute Change of Reference

Yea 31 Nay 0

Finance, Revenue and Bonding Committee

Joint Favorable Report

Yea 45 Nay 0